

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Pearce Elementary School District No. 22

Year Ended June 30, 2006



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

Accounting Services Division Staff

Laura Miller, Manager and Contact Person
lmiller@azauditor.gov

Roger Walter
Burim Gashi

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General
2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.azauditor.gov



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

December 27, 2007

Governing Board
Pearce Elementary School District No. 22
1487 East School Road
Pearce, AZ 85625

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2006, prepared by Lorenzo, PLC to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Laura Miller, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

TABLE OF CONTENTS



Introduction	1
Recommendation 1: The District's controls over cash receipts and bank accounts should be strengthened	2
Recommendation 2: The District should improve controls over purchasing and expenditures	3
Recommendation 3: The District should establish stronger controls to ensure its accounting records are accurate	4
Recommendation 4: The District should ensure the accuracy of its student attendance records	5
Recommendation 5: The District should maintain accurate and complete capital assets and stewardship lists	6

INTRODUCTION

Pearce Elementary School District No. 22 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$1.1 million it received in fiscal year (FY) 2006 to provide this education.

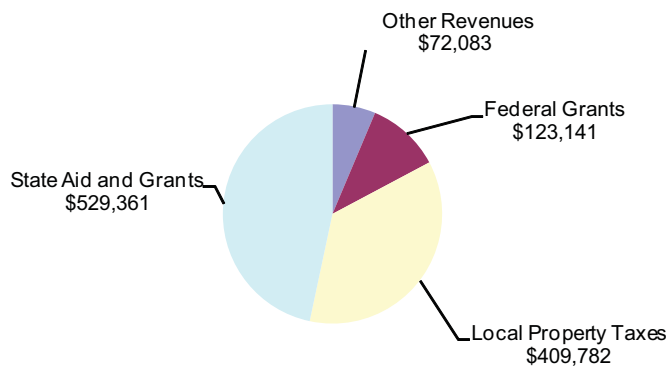
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2006, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2006

County: Cochise
Number of Schools: 1

Number of Students: 115
Grade Levels: K-8



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2005-2006 and Pearce Elementary School District No. 22 Financial Statements as of and for the Year Ended June 30, 2006.*

The District's controls over cash receipts and bank accounts should be strengthened

Poor cash controls left district and student monies susceptible to loss, theft, or misuse.

The District receives cash from extracurricular tax credit receipts and various other sources, and maintains bank accounts to deposit the related receipts. Because of the relatively high risk associated with cash transactions, the District should have effective internal controls to safeguard cash. However, the District did not have strong controls over its cash receipts and bank accounts. Specifically, the District maintained an unauthorized bank account for extracurricular tax credit monies received. Also, the District did not prepare cash receipt forms or a reconciliation of cash collected to issued receipts for monies received at the District.

Further, the District holds student activities monies raised through students' efforts for safekeeping and has a fiduciary responsibility to ensure that these monies are not misused, lost, or stolen. However, the District did not fulfill its fiduciary responsibility as cash-handling, recordkeeping, and bank reconciliation responsibilities were not separated among employees for the student activities bank account and the District's Governing Board did not appoint a student activities treasurer. In addition, the District did not prepare reports that reconciled sales to cash collected at student activities events, and did not retain documentation to support that the monies received were deposited in a timely manner. Also, disbursements from the student activities bank account were not properly authorized by the student club, and student activities checks were not signed by two authorized signers. Further, the District did not submit a monthly report of cash receipts, disbursements, transfers, and cash balances for student activities to the Governing Board.

Recommendations

To strengthen controls over cash receipts and bank accounts, the District should:

- Close unauthorized bank accounts and transfer any remaining monies to the appropriate bank account or fund with the County Treasurer.
- Prepare prenumbered and numerically controlled cash receipt forms and a reconciliation of issued cash receipt forms to cash received at the District.
- Separate cash-handling, recordkeeping, and bank reconciliation responsibilities among employees and ensure that bank reconciliations are prepared by an employee not responsible for these functions.
- Appoint a student activities treasurer to be responsible for the student activities bank account.

- Prepare activity or cash collection reports to document sales and reconcile cash collected to cash receipt forms, tickets, or items sold at student activities events. For events where it is not practical to prepare cash receipt forms, sell tickets, or count items, such as bake sales, clubs should still prepare a cash collection report to document cash collected.
- Deposit monies in a timely manner and retain supporting documentation.
- Make disbursements from the student activities bank account only after the student club has approved them and documented the approval in its meeting minutes.
- Ensure that student activities checks are signed by the student activities treasurer and one other person authorized by the Governing Board.
- Submit a monthly report of cash receipts, disbursements, transfers, and cash balances for student activities to the Governing Board.

A sample form to record cash collections and reconcile sales to cash collected can be found on USFR page X-H-21.

The District should improve controls over purchasing and expenditures

The District spends public monies to purchase goods and services, so it is essential that the District follow the School District Procurement Rules and USFR guidelines designed to help ensure that the District receive the best possible value for the public monies it spends, and that its expenditures are appropriate, approved, and adequately supported. However, the District did not always follow such procedures. Specifically, the District did not always obtain at least three oral or written price quotations for purchases requiring them. In addition, the District did not establish and maintain formal written policies governing the use of credit cards, and did not set a dollar limit for all credit card purchases or clearly identify the employee making the purchase. Further, the District did not always reimburse employees for mileage at the standard rate established by the Arizona Department of Administration (ADOA).

The District did not have policies governing the use of credit cards.

Recommendations

To improve controls over purchasing and expenditures, the District should perform the following:

- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written quotations from at least three

Credit card procedures are outlined on USFR pages VI-G-7 and 8.

vendors for purchases estimated to cost between \$15,000 and the amount requiring competitive sealed bids. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

- Establish formal written policies governing the use of credit cards. The policies should include the purpose for which the cards may be used and dollar limits for charges, and require an effective accounting system to account for and control the cards. Supporting documentation for credit card purchases should clearly indicate the employee making the purchase and the specific district purpose for the expenditure.
- Reimburse employees and board members for mileage at the standard rate established by ADOA.

The District should establish stronger controls to ensure its accounting records are accurate

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, the District must have strong internal controls to ensure the reliability of its accounting records. However, the District did not fully accomplish this objective. Specifically, the District did not provide its auditor with documentation that its records were reconciled to the County School Superintendent's (CSS) records or that its cash balances were reconciled to the County Treasurer's records. Also, the amount the District reported as property tax revenues on its annual financial report (AFR) exceeded the amount recorded in its accounting records, and budgeted expenditures on the District's AFR did not agree with its expenditure budget. Further, the District did not accurately report route miles on its transportation route report submitted to ADE. Finally, the amounts reported for approved daily route miles and number of eligible students transported on the District's Expenditure Budget did not agree to ADE's Transportation Route Report—TRAN 55-1.

The District did not ensure the accuracy of its cash on deposit with the County Treasurer as its records were not reconciled.

Recommendations

To ensure the accuracy of its accounting records, the District should reconcile its records to the CSS's records and also its cash balances to the County Treasurer's records at least monthly. The District should also reconcile its records of revenues, expenditures, and cash balances by fund, program, function, and object code to the

Procedures to reconcile to the CSS and County Treasurer are outlined on USFR pages VI-B-8 through 10.

CSS's records at least at fiscal year-end. The District should resolve all differences noted in the reconciliations, make appropriate corrections, and retain supporting documentation. In addition, the District should assign a second employee to verify that the amounts reported on the AFR agree to the District's expenditure budget and accounting records before it is submitted to ADE. Also, the District should accurately report route miles on its transportation route report submitted to ADE. Further, the District should obtain route miles and eligible students transported from the prior year's ADE Transportation Route Report—TRAN 55-1 to complete the District's Expenditure Budget.

The District should ensure the accuracy of its student attendance records

The State provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate attendance records to help ensure that they receive the appropriate amount of state aid and local property taxes. However, the District's computerized attendance system did not calculate 7th- and 8th-grade absences properly. Also, the District's 40th- and 100th-day membership and absences amounts recorded in its computerized attendance system did not agree to ADE's reports. In addition, the District did not always prepare and retain withdrawal forms. Further, the student count reported on the District's FY 2006 Expenditure Budget was improperly obtained from a FY 2004 ADE report.

Recommendations

The District should ensure that student membership and absences are recorded and reported accurately to ADE. To help ensure information submitted to ADE is accurate, the District should perform the following:

- Record attendance for students enrolled in first through eighth grades, if attendance is based on half-days, as follows:
 - Attendance of at least three-quarters of the instructional time scheduled for the day should be counted as a full day of attendance.
 - Attendance for at least one-half, but less than three-quarters, of the instructional time scheduled for the day should be counted as a half-day absence.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

- Ensure that membership and absences reported to ADE are supported by the District's computerized attendance system and properly completed withdrawal forms.
- Obtain the student count from the prior year ADE ADMS 46-1 report to use in completing the expenditure budget.

The District should maintain accurate and complete capital assets and stewardship lists

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, the District should have an accurate list of these assets to ensure they are properly identified, accounted for, and safeguarded. However, the District did not accomplish this objective. Specifically, the District did not include all required information and equipment on its capital assets list. In addition, the District did not include the month and year of acquisition on its stewardship list. Further, the District did not reconcile capital acquisitions to capital expenditures at least annually and the current year's capital assets list to the previous year's list.

Recommendations

To help strengthen controls over its capital assets, the District should prepare and maintain a detailed capital assets list that includes all equipment and vehicles with unit costs of \$5,000 or more and useful lives of 1 year or more, and all land, buildings, and related improvements with costs of \$5,000 or more. The list should be updated annually and include all of the information shown on USFR pages VI-E-2 and 3. In addition, the District's stewardship list should include the item's description, identification number (tag number), location for the item, and the month and year of acquisition. Also, to ensure that current year acquisitions are properly included on the capital assets list and that the current year capital assets list is complete, the District should reconcile capitalized acquisitions to capital expenditures by fund and the prior year's list to the current year's list. All differences should be investigated and resolved.